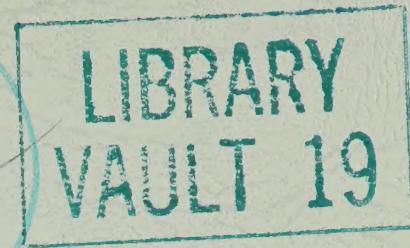
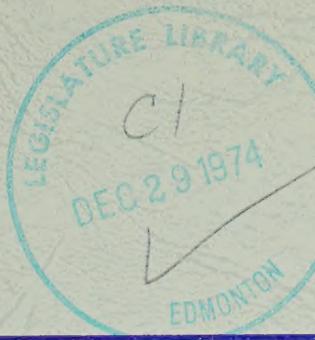


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SUPPLEMENT TO THE
REPORT OF AN APPLICATION OF
ATLANTIC RICHFIELD COMPANY, CITIES SERVICE ATHABASCA, INC.,
IMPERIAL OIL LIMITED AND ROYALITE OIL COMPANY, LIMITED
UNDER PART VI A OF THE OIL AND GAS CONSERVATION ACT

MARCH, 1969

Alta
COIL AND GAS CONSERVATION BOARD
603 SIXTH AVENUE SOUTH WEST • CALGARY 1, ALBERTA

REPORT TO
THE LIEUTENANT GOVERNOR IN COUNCIL

SUPPLEMENT TO THE
REPORT OF AN APPLICATION OF
ATLANTIC RICHFIELD COMPANY, CITIES SERVICE ATHABASCA, INC.,
IMPERIAL OIL LIMITED AND ROYALITE OIL COMPANY, LIMITED
UNDER PART VIA OF THE OIL AND GAS CONSERVATION ACT

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MARCH, 1969

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I INTRODUCTION

On December 2, 1968, the Board submitted OGCB Report 68-C⁽¹⁾ giving its findings on the application of Atlantic Richfield Company, Cities Service Athabasca, Inc., Imperial Oil Limited and Royalite Oil Company, Limited under Part VI A of The Oil and Gas Conservation Act. The application was for approval of a scheme for the recovery of oil sands and crude bitumen on a commercial basis commencing in 1973, and the production therefrom of 50,000 barrels per day of synthetic crude oil, 25,000 barrels per day of specialty oils and 5,000 barrels per day of naphtha.

In Finding 6 of OGCB 68-C the Board gave its proposed disposition of the application which is quoted in full in Appendix A and is highlighted below.

The Board found that the application was satisfactory in all respects except for the marketing plan, and concluded that the application could not be granted at the time due to the "substantial uncertainty with respect to the probable magnitude and rate of development of the recent Alaskan discoveries." The Board stated that it "would be prepared, therefore, subject to the approval of the Lieutenant Governor in

(1) Report on an Application of Atlantic Richfield Company, Cities Service Athabasca, Inc., Imperial Oil Limited and Royalite Oil Company, Limited under Part VI A of The Oil and Gas Conservation Act. December, 1968.

Council, to approve the application provided that:

During the month of November 1969 at a public hearing called for the purpose upon eight weeks' notice following the filing of the applicants' submission, the applicants satisfy the Board that the balance of probabilities, as they may then best be assessed, strongly favours the applicants' contention that the probable Alaskan developments will be of the order of both those which they have forecast and which the Board has included in its low Alaska production case, and not such a degree greater as to reduce significantly the deficiencies now anticipated by the applicants in the United States indigenous supply of crude oil in the period 1973 to 1974.

In the event that the applicants do not file a submission to be considered at a November 1969 hearing, on or before September 5, 1969, the application would be deemed to be dismissed."

It is to be noted that the disposition of the application is subject to the approval of the Lieutenant Governor in Council. Such approval has not been given, and the Lieutenant Governor in Council has given leave to the applicants to make a submission directly to him in connection with the Board's proposed disposition of the application. This submission was received by the Government on February 19, 1969, was tabled in the Legislature February 20, 1969, and has now been referred to the Board for its consideration.

II SUBMISSION OF APPLICANTS TO THE
LIEUTENANT GOVERNOR IN COUNCIL

The submission of the applicants to the Lieutenant Governor in Council, dated February 19, 1969, is quoted in full in Appendix B and is highlighted below:

In their submission the applicants submitted that the additional hearing required under the Board's disposition of the application "would not be of decisive assistance to the Board" because of the unavailability of definitive information and the inability "of the applicant companies directly and indirectly involved in activities on the North Slope of Alaska to testify because of competitive circumstances".

The applicants advised that their "current estimates of future Alaskan production.....are not seriously incompatible with the Board's 'High Alaska' case". The applicants continued that "in order to permit a prompt and favorable decision by the Board we are prepared to amend our application and accept an approximate three-year delay in authorized plant startup date".

The applicants also submitted that in addition to the above amendment "the Board should also evaluate new evidence which is now available relating to the forecast of United States demand for petroleum". They submitted that this new evidence indicated a higher United States demand for oil than the Board had estimated in its 1968 report.

According to the applicants the combination of a three-year deferment in marketing date and the increased United States demand for oil will "meet and offset the Board's concern over the possibility of a rapid buildup in Alaskan production".

In the last paragraph of the submission the applicants requested that "the Lieutenant Governor in Council seek the advice of the Board on these matters and determine whether the Board would consent to amend the conditions under

which it would be prepared, subject to the approval

of the Lieutenant Governor in Council, to approve the application following a hearing called at the earliest possible date to consider:

- (a) an amendment to the application to provide for an approximate three-year delay in startup, and
- (b) a study of new U.S. demand data."

III VIEWS OF THE BOARD

This section sets forth the conclusions of the Board upon its examination of the applicants' submission to the Lieutenant Governor in Council with respect to the matters raised in the submission.

Alaska Production

The applicants contend that a November, 1969, hearing as provided for by the Board in its disposition of the application would not be of decisive importance, that further information will only evolve over a period of years and that because of competitive factors the applicants would not be able to testify. They further stated that their own estimates of future Alaskan production were not seriously incompatible with the Board's "High Alaskan" case and they were prepared to have their application considered on the basis of the Board's "High Alaska" case and accordingly seek a hearing "at the earliest possible date".

The Board has considered whether the previous disposition should be modified with respect to the proposed November, 1969, hearing. The Board originally believed that exploration activity during the current winter season would permit "a more meaningful evaluation of the prospects in Alaska". In view of the applicants' recent submission the Board agrees that a delay to November for any further hearing would not likely effect its intended purpose and the Board believes that an

earlier hearing could well be considered. The Board believes, however, that at any further hearing all parties should have an opportunity to present evidence and views regarding future Alaska development.

Proposed Amendment with Respect to Start-up Time

The applicants state in their submission to the Lieutenant Governor in Council their preparedness to amend the application to delay the start of proposed commercial operations by approximately three years from 1973 to 1976 or 1977. They contend that the combination of this deferment and a higher estimate of United States oil demand than employed by the Board would permit approval of their application.

The Board considers the delay in start-up time now proposed by the applicants to be a most significant change and believes the applicants should be given the opportunity to amend their application in this respect. At the August hearing and in the Board's subsequent analysis major concentration was placed on the period immediately preceding 1975. Whether such an amendment as to start-up time would permit the Board to recommend the granting of the application would of course depend on the Board's assessment of any new evidence and also on a more detailed analysis of the period 1975 to 1980.

Consideration of Forecasts of United States Oil Demand

The applicants' submission to the Lieutenant Governor in Council requests that the Board consider new evidence available since August 1968 of probable United States demand. The Board accepts the applicants' statement that "a number of forecasts have been issued in the United States showing significant increases in probable United States demand", and that the views of the applicants themselves have undergone a similar change. In any event, the assessment of United States demand in the latter part of the next decade, not focused upon at the August hearing, becomes a matter of extreme importance in consideration of the application.

The Board agrees that new evidence with respect to the growth in United States demand would be germane to any reconsideration of the application and believes it appropriate that such new evidence should be considered.

Consideration of Forecasts of United States Oil Production

Exclusive of Alaska

While the applicants have not requested that further consideration be given to the forecasts of United States oil production exclusive of Alaska, the Board nevertheless is cognizant that there may be new information or estimates available relating to United States production. The Board believes that if the United States demand forecasts are to be reconsidered, it is proper to provide interested parties

with an opportunity to present any new evidence with respect to estimated United States oil production.

Consideration of Other Matters

The Board does not believe it would be useful or appropriate to reopen for consideration any matters raised at the August hearing other than those referred to above. It recognizes, however, that it is possible that substantial change could arise in circumstances affecting the entry of Canadian oil in United States markets, or some other new and substantial development occur of real significance in consideration of the application. The Board believes that in such event evidence regarding the matter should be considered at any further hearing.

IV AMENDED DISPOSITION OF THE APPLICATION

The submission of the applicants to the Lieutenant Governor in Council raises no matters which cause the Board to revise the views, based upon the evidence submitted at the August 1968 hearing, which are expressed in the first paragraph of Finding 6 of OGCB Report 68-C, reproduced in Appendix A.

The premises upon which the applicants' submission to the Lieutenant Governor in Council are based conflict with the second paragraph of Finding 6 of OGCB Report 68-6. These indicate that a more meaningful evaluation of the prospects in Alaska could not be expected from a hearing later in this year and that, in the light of the proposed new start-up date and new evidence regarding other matters that may be forthcoming if the hearing now proposed by the applicants is called, the possibilities with respect to Alaska may not be a barrier to the granting of the application.

In the light of the present representations of the applicants to the Lieutenant Governor in Council regarding

- (a) their inability to provide definitive estimates of future Alaska production but their general acceptance of the Board's "high Alaska production" case,
- (b) their willingness to delay the start of commercial operations to a time some three years later than that originally applied for, and

(c) the availability of new United States demand forecasts,

the Board believes it proper that the provisions under which it would be prepared, with the approval of the Lieutenant Governor in Council, to approve the application, be altered from those described in Finding 6 of OGCB Report 68-C to the following which supersedes all but the first paragraph of Finding 6 referred to:

The Board would be prepared, subject to the approval of the Lieutenant Governor in Council, to grant the application provided that:

At a public hearing called for the purpose upon eight weeks' notice following the filing with the Board of an appropriate submission from the applicants, the applicants satisfy the Board that the balance of probabilities as they may then best be assessed strongly favours the position that, having regard to

- (a) the probable Alaskan development,
- (b) the proposed amended date at which commercial operations would commence,
- (c) new evidence of the applicants and others relating to the United States demand,
- (d) any new evidence of the applicants and others relating to the production of oil in the United States elsewhere than in Alaska, and

(e) any new evidence of the applicants and others relating to substantial changes in circumstances affecting the entry of Canadian oil in United States markets; the deficiencies in the United States supply in the period 1976 to 1977 would be approximately what the applicants anticipated, at the August, 1968, hearing of the application, for the period 1973 to 1974.

In the event that the applicants do not file a submission with the Board before September 5, 1969, the application would be deemed to be dismissed.

The approval which the Board would be prepared to issue following the hearing referred to, if the applicants satisfy the Board on the aforementioned matters and given the further approval of the Lieutenant Governor in Council at that time, would be in the form reproduced in Appendix C of OGCB Report 68-C, amended to include reference to the submission to be filed by the applicants, and subject to the terms and conditions therein shown.

Respectfully submitted,

G. W. Gover, P. Eng.
Chairman

A. F. Manyluk, P. Eng.
Deputy Chairman

Dated at Calgary, Alberta
this 3rd day of March,
A. D. 1969.

Vernon Millard
Board Member

APPENDIX A

Finding 6 of OGCB 68-C

DISPOSITION OF THE APPLICATION

Having regard to its present findings with respect to the applicants' marketing plan the Board concludes that the application cannot be approved at the present time. The barrier to immediate approval is the substantial uncertainty with respect to the probable magnitude and rate of development of the recent Alaskan discoveries. Since, in the Board's view, there is a fair possibility that these discoveries could result in a new United States supply of the order of the Board's high estimates of production from Alaska, the Board cannot now accept that the proposed "new within reach" markets would represent a net gain in market for Alberta oil.

Nonetheless, the Board does not think it proper, on the basis of the possibilities with respect to Alaska which are most difficult to resolve now, and which constitute the only barrier to present approval, that the application be denied or that the entire decision be further delayed. The applicants' case reflects their conviction that the Alaskan discoveries will not result in additional supplies being developed which will significantly affect their forecast of the United States deficiencies. The Board believes that results of exploration activity currently underway and planned for the coming winter may permit a more meaningful evaluation of the prospects in

in Alaska to be made in a few months' time.

The Board would be prepared, therefore, subject to the approval of the Lieutenant Governor in Council, to approve the application provided that:

During the month of November 1969 at a public hearing called for the purpose upon eight weeks' notice following the filing of the applicants' submission, the applicants satisfy the Board that the balance of probabilities, as they may then best be assessed, strongly favours the applicants' contention that the probable Alaskan developments will be of the order of both those which they have forecast and which the Board has included in its low Alaska production case, and not such a degree greater as to reduce significantly the deficiencies now anticipated by the applicants in the United States indigenous supply of crude oil in the period 1973 to 1974.

In the event that the applicants do not file a submission to be considered at a November 1969 hearing, on or before September 5, 1969, the application would be deemed to be dismissed.

The approval which the Board would be prepared to issue following the November 1969 hearing, if the applicants satisfy the Board on the aforementioned matters and given the further approval of the Lieutenant Governor in Council at that time, would be in the form reproduced in Appendix C and subject to the terms and conditions therein shown.

APPENDIX B

SUBMISSION RE SYNCRUE CANADA LTD.
TO THE LIEUTENANT GOVERNOR IN COUNCIL
THE GOVERNMENT OF ALBERTA

A short time ago, representatives of Atlantic Richfield Company, Imperial Oil Limited, Cities Service Athabasca, Inc., and Royalite Oil Company, Limited, met with members of the Cabinet to express our initial reactions regarding Report 68-C of the Alberta Oil and Gas Conservation Board which was issued in December of 1968 with respect to our application for a permit to produce hydrocarbon products from Crown Lease No. 17 at Mildred Lake in the Athabasca Oil Sands deposit. Since our meeting, the applicants, individually and collectively, have carefully reviewed Report 68-C.

In summary, the Board in Report 68-C supported the application on all critical points except for its uncertainty that "the proposed 'new within reach' markets would represent a net gain market for Alberta oil" in or near the estimated 1973 plant startup date. The Report noted no defects in our marketing plan but expressed "substantial uncertainty with respect to the probable magnitude and rate of development of the recent Alaskan discoveries". The Board was prepared to approve the application if, at a public hearing in November 1969, it would be satisfied that probable Alaskan developments would not "reduce significantly the deficiencies now anticipated by the applicants in the United States indigenous supply

of crude oil in the period 1973 to 1974".

While recognizing the Board's proper concern with the recent Alaskan discovery, the applicants submit that such additional hearing would not be of decisive assistance to the Board. Any reliable forecast of Alaskan production rate and its probable effect on U.S. markets and Canadian exports would have to be based upon more than a tentative estimate of reserves. Definitive evaluations of production and transportation costs and market opportunity would be required. These evaluations will only evolve over the next few years, and in order to be meaningful such evaluations would have to be based upon events which will occur step by step during this period. In addition, the applicant companies directly and indirectly involved in activities on the North Slope of Alaska would be unable to testify in the foreseeable future concerning their internal assessments of Alaskan possibilities because of competitive circumstances relating to exploration and development in that particularly sensitive area.

The most helpful statement we can offer is that while the applicants have a range of current estimates of future Alaskan production, they are not seriously incompatible with the Board's "High Alaska" case and the applicants are, therefore, prepared to be judged on the basis of the Board's "High Alaska" case.

The applicants have been seeking a permit to develop Alberta Oil Sands since 1962 and need a prompt decision. We are finding it exceedingly difficult, both individually and jointly, to continue financial support for oil sand development without definite foreseeable goals and we must emphasize that any additional substantial delay may well have the same effect as a denial of our application. We do not question the Board's logic in requiring additional evidence to justify approval of a 1973 startup date for our plant, nor do we request that the Board change its views in that respect in light of the presently unresolvable uncertainty regarding Alaskan potential. In order to permit a prompt and favourable decision by the Board, we are prepared to amend our application and accept an approximate three-year delay in authorized plant startup date. Commencement of production in the first half of 1976 would lead to sustained production to the marketplace in early 1977. Given assurance that production would be permitted by such date, we would be able to design a stretched-out program by scheduling in sequential rather than overlapping stages and thereby avoid dissolution of the Syncrude organization.

In addition to considering this amendment to our application which would defer marketing of synthetic crude for an approximate three-year period, the Board should also evaluate new evidence which is now available relating to the fore-

cast of U.S. demand for petroleum. Since the hearing in August of 1968 a number of forecasts have been issued in the United States showing significant increases in probable U.S. demand. In the proceedings before the Board on January 22, 1969 in the matter of the application of Muskeg Oil Company there was referred to in evidence a new demand forecast which averaged a million barrels per day higher than the U.S. demand estimates adopted by the Board in its report on the Syncrude hearing. The current forecasts by the applicants agree generally with these higher estimates. As the Board has recognized, any increase in U.S. demand would have significant effect upon the level of Canadian exports into the United States. The applicants are convinced that increased U.S. demand, coupled with the applicants' proposed three-year marketing delay will meet and offset the Board's concern over the possibility of a rapid buildup in Alaskan production.

A hearing at the earliest possible date limited to consideration of the new data now available with respect to U.S. demand and the three-year marketing delay proposed by the applicants, should permit a favourable decision by the Board and justify continuance of the activities of Syncrude Canada Ltd.

The applicants therefore respectfully request that the Lieutenant Governor in Council seek the advice of the Board on these matters and determine whether the Board would

consent to amend the conditions under which it would be prepared, subject to the approval of the Lieutenant Governor in Council, to approve the application following a hearing called at the earliest possible date to consider:

- (a) an amendment to the application to provide for an approximate three-year delay in startup, and
- (b) a study of new U.S. demand data.

Respectfully submitted by,

"F. K. Spragins" (Sgd)

F. K. Spragins, President
Syncrude Canada Ltd.
on behalf of:

Atlantic Richfield Company
Cities Service Athabasca, Inc.
Imperial Oil Limited
Royalite Oil Company, Limited

